

# Memorandum

To: Commissioners Christmann, Haugen-Hoffart and Fedorchak

From: Robert Frank Public Utility Analyst

RF

Date: February 5, 2024

Re: Otter Tail Power Company, 2024 Renewable Resource Cost Recovery Adj. Factor, Rates, Case No. PU-23-343

On November 2, 2023, Otter Tail Power Company (OTP) filed a request for approval of its 2024 Renewable Resource Cost Recovery Rider Adjustment Factor (RRCR). The RRCR recovers projected costs from April 1, 2024, through March 31, 2025. The projected costs include the repowers of the Langdon, Luverne, Ashtabula I, and Ashtabula III wind projects, and the RRCR will include the Merricourt Wind Energy Center (Merricourt) production tax credits.

On January 1, 2024, OTP reduced the RRCR rate from 12.156 percent to zero by moving the recovery of Merricourt and Ashtabula III into the base rate as indicated in OTP's November 2, 2023, electric rate case filing (PU-23-342). The RRCR will increase to 1.728 percent for the recovery period from April 2024 through March 2025 to recover the revenue requirement of \$1,943,515 out of a forecasted retail revenue of \$112,457,472. The revenue requirement includes the calculated average rate base for the wind repower projects, income tax expense, and the PTCs generated by Merricourt levelized over the 35-year life of the project. The average residential impact using 1,000 kWh a month will be an initial decrease of \$8.32 to zero until April 1, 2024, when it will increase to \$1.18.

The calculations for the RRCR incorporate the 2024 test year assumptions from OTP's 2023 electric rate case filing including an update to the energy jurisdictional allocation factor, the E2 or base energy for wind allocation factor (E2). The E2 for North Dakota has increased from OTP's 2018 rate case of 37.57734% to 44.98105% in the current filing, an increase of 7.40371%. The change in the E2 reflects the growth in OTP's North Dakota sales driven primarily by the addition of the Applied Digital, Inc. (APLD) blockchain load that went into service in 2022.

OTP will true-up the PTCs from Merricourt acquired over the interim period into the calculation for the new RRCR rate starting April 1, 2024. Any changes to the assumptions in OTP's electric rate case will be implemented into the RRCR with a compliance filing along with the necessary true-up.

The Langdon repower is expected to be completed in the fourth quarter of 2024 and will be included in the RRCR until the Commission approves final rates in OTP's 2023 electric rate case, after which it will be rolled into base rates and removed from the

RRCR. The Luverne, Ashtabula I, and Ashtabula III repowers are expected to be completed in the second and third quarters of 2025.

OTP proposes that the PTCs for all four repower projects be recognized as they are generated for ratemaking purposes in the RRCR. However, the Commission has generally required the PTCs to be levelized over the life of the project.

On January 12, 2024, APLD filed comments requesting that the case remain open for continued comments pending the results of OTP's 2023 electric rate case and that the true-up for the RRCR will include interest on refunds. Staff has confirmed that OTP intends to incorporate the results of the electric rate case into the RRCR and that all aspects of the true-up process are correct. If changes are necessary, OTP will make a compliance filing after completion of the 2023 electric rate case.

Staff has reviewed the RRCR filing and recommends approval of the rate but recognizes the issue regarding PTC levelization necessitates further discussion.

C. Emily Ketelsen